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Issue Paper 2: Economic Growth, Sustainability, and Sustainable Development

Sustaining the Vision: Lessons for USAID's Move Toward Sustainability and Sustainable Development

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Executive Summary

A primary goal of USAID and other donors is sustainable development - the process of balancing growth and equity to improve the well-being of current populations, while preserving the resource base for future generations. This paper examines the concepts of sustainable development and sustainability in relation to four USAID activities within the economic growth sector: economic policy reform, microenterprise development, privatization, and export and investment promotion.

A survey of USAID and other donor literature on sustainable economic development reveals several key findings:

Operating without a common working definition of sustainable development, USAID lacks a comprehensive approach to incorporating sustainability at the project and program levels. Sustainability concepts, when used at all, are applied inconsistently in project designs, evaluations, and technical analyses.

Although USAID increasingly emphasizes financial and institutional sustainability, it generally fails to consider sustainable economic development's critical links with other Agency sectors, such as democracy and health.

Few USAID evaluations identify lessons learned in achieving sustainability beyond the project level. As a result, we are unable to determine whether these lessons are applicable beyond the specific country or activity context. More program-level assessments focusing on sustainability are necessary.

The World Bank appears to be more advanced than USAID in integrating

sustainability concerns into its approach and analysis, notably in its Poverty Assessment literature, which attempts to treat these concerns systematically. Within USAID's economic growth sector, the microenterprise literature has progressed furthest in including sustainability - especially financial sustainability - into its approach.

Increasingly, development theorists and practitioners are attempting to address not only sustainability of project benefits, but also issues surrounding the end goal - sustainable development. In the coming years, donors will face the challenge of integrating sustainability concepts and lessons into their economic growth activities.

ECONOMIC GROWTH, SUSTAINABILITY, AND SUSTAINABLE DEVELOPMENT

A. Introduction

Donors increasingly recognize the foundational nature of the twin concepts of "sustainability" and "sustainable development" as they apply to the field of international economic development. Although these terms have gained broad usage, defining them conceptually is more problematic. The 1987 World Commission on Environment and Development (commonly known as the Brundtland Commission) popularized the term "sustainable development." Sustainable development was defined as development that "meets the needs of the present generation without compromising the needs of future generations." Given the Brundtland Commission's emphasis on the environment, the term "sustainable development" initially became linked with efforts to integrate environmental concerns with more traditional development theories.

Since that time, however, sustainable development has broadened in context and has come to represent long-term development in all its many facets. Development literature currently uses sustainable development as a sort of "catch-all" to mean development that is effective and has lasting positive impact. The concept of "sustainability" feeds into the greater theoretical construct of sustainable development, whereby project benefits are maintained over the long-run.

From a review of donor and academic literature, no single concrete definition has emerged for these two concepts. Some have even suggested the terms themselves have become trivialized and useless. Yet most experts agree that the concepts surrounding these terms are of central importance to development theory and practice.

This paper synthesizes USAID and World Bank economic growth literature as it relates to the subject of sustainability and sustainable development. Lessons are drawn from a wide range of sources, focusing on four subsectors of the economic growth sector: economic policy reform, microenterprise, privatization, and trade and investment. The overall status of the economic growth literature in relation to integrating sustainability is also assessed.

One key lesson emerging from USAID and other donor experience over the past decade is the importance of the private sector to long-term economic growth, and hence to sustainable economic development. Donors have learned that sustainable development requires a sound economic policy environment, characterized by policies that encourage competition and free market principles. In addition, privatization of state-owned enterprises can contribute in a positive way to sustainable development by encouraging competition and efficiency

in the economy, and freeing government resources for other development activities.

Donors have found that a country's ability to attract foreign investment and to successfully export goods and services in the international market can play a critical role in promoting sustainable economic development. Moreover, building a viable foundation upon which a developing country's small business and microenterprise sector can flourish can significantly contribute to sustainable development. Economic opportunity and access to financing for businesses of all sizes is an important ingredient to sustainable development in the economic growth sector.

B. Sustainability Concepts in the Economic Growth Sector

USAID recently identified sustainable economic growth as one of four sectors in which Agency resources will be concentrated. The "strategy paper" for USAID's economic growth objective, contained in Strategies for Sustainable Development (USAID 1994), identifies three areas in which the Agency will focus its efforts in developing economies: strengthening market forces, expanding access and economic opportunity for the less-advantaged, and investing in people by building human skills and capacities.

Although economic growth is not specifically defined in this paper, activities are identified that fall within this sector. These activities include, but are not limited to, the following: 1) micro, small, and medium-sized enterprise development, 2) access to markets (e.g., export and investment promotion), 3) financial services (e.g., credit, savings), 4) privatization of state-owned enterprises, 5) institution building (both private and public intermediaries), 6) training (e.g., technical or management skills), 7) infrastructure (e.g., capital projects), 8) development and delivery of appropriate technology (e.g., access), and 9) economic policy, legal and regulatory reform.

In USAID, particular attention is increasingly focused on the role of women in economic growth activities. Moreover, USAID activities in the economic growth area span many sectors of the economy (i.e., agriculture, industry, and services). The World Bank supports economic growth through these same approaches (World Bank 1991a).

Donors agree that there are appropriate roles for both the private sector and the state with regard to economic growth. However, after years of emphasizing the state to the neglect of the private sector, development theorists now consider support for private sector development an essential element in long-term economic development. Private sector development is now a common thread throughout USAID interventions, as evidenced by the list of activities above. Even so, donor activities continue to recognize and support a role for the state in the process of sustainable development, for example in the area of policy and legal systems development.

In many cases, donors continue to promote private sector development by channelling assistance via the host country government. The World Bank, for example, makes loans only to governments, and not to private sector entities. USAID has more flexibility, working not only through host governments, but also through private sector entities to promote private sector development. For example, USAID provides grants to private voluntary organizations that administer direct assistance to entrepreneurs in developing countries when

that assistance will have a broad and positive economic impact.

According to the 1994 strategy paper, USAID efforts to promote economic growth should be shaped by strategic objectives, not specific methods (Ibid., 39):

The keys to economic growth and reduced poverty are an appropriate policy environment, sound institutions, good governance, adequate investment and savings, the availability of appropriate technologies, and access by the population to adequate food, health care, education, and housing. But beyond these basic requirements, there is no single best way to promote economic growth [emphasis added].

In one sense, the Agency has always been concerned with sustaining project and program benefits in the countries in which it operates. Few USAID project officers deliberately design a project that will have only short-term impact (though in some cases this would be appropriate, such as in disaster relief). In hindsight, however, we too often find project design to be inadequate in relation to the demands of sustainability. Clearly, USAID lacks a comprehensive approach to incorporating sustainability as applied to the economic growth sector at the project and program level. The haphazard and frequent rhetorical usage of sustainability in project design reflects this lack.

From a review of USAID literature on sustainable economic growth the following has emerged:

Based on a search of project documents in USAID's Development Information System (DIS), it would appear that comprehensive consideration of sustainability in the design of USAID projects is lacking in most cases. Until the Agency defines what it means by sustainability and issues clear directives, however, it may be difficult for project officers to know which aspects of sustainability should apply to their activities, as well as which indicators should be used to objectively measure sustainability. CDIE's PRISM is currently attempting to clarify and standardize appropriate indicators, some of which are relevant to sustainability.

Although the term "sustainability" has gained popularity with the Agency over the past five to ten years, there is still considerable divergence as to how the term or concept is used. USAID authors use "sustainability" to mean many different things, rarely defining the term in their publications. Some authors even employ multiple uses of the concept within the same paper.

Due to the factors listed above, comparability of the concept and its application are difficult in the economic growth sector, and even more difficult between sectors, such as between economic growth and democracy.

In evaluations of USAID activities promoting economic growth, the lessons learned in sustainability are usually identified at the project or subproject level. There is little way of knowing, from the existing literature, whether these lessons are applicable beyond the specific country or activity level. More program level assessments that focus on sustainability are needed.

In USAID literature, the economic growth subsector that appears to deal most frequently with sustainability is microenterprise development. Many lessons in how to structure credit intermediaries for financial sustainability have emerged (these are dealt with in more detail later). In the trade and investment subsector, a recent CDIE program assessment, Export and Investment Promo-

tion: Sustainability and Effective Service Delivery (USAID 1992), covers sustainability issues as well, though it is not readily apparent that USAID literature on this subject in general focuses on sustainability.

Most of the USAID literature on economic growth, when considering the issue of sustainability, has employed the concept as it relates to financial self-sufficiency and institutional viability. Although helpful, this focus is ultimately too narrow and fails to address other significant aspects of sustainable development.

Alternatively, the World Bank appears to be making strides in integrating concepts of sustainability into its programming, as evidenced by its recent poverty reduction research. In 1990, having re-affirmed poverty reduction in the developing world as its over-arching objective, the Bank went on to produce a series of handbooks, assessments, and research that attempt to incorporate sustainability as a key concept. The Poverty Reduction Handbook (1992) offers suggestions on how to work sustainability into poverty project design (chapter 6), focusing on three aspects of sustainability: financial, institutional, and environmental. Additionally, many country-specific poverty assessments covering World Bank borrowers have already been produced by the Bank (by the end of FY95, 88 poverty profiles are scheduled for completion). Although a review of some of these profiles revealed that the focus on sustainability and strategies for sustainable poverty reduction should be improved (Gillespie 1990), the most important point is that the World Bank literature is increasingly highlighting the crucial nature of focusing on sustainability.

Cross-Sectoral Issues

Many issues arise when the goal of economic growth intersects with the goal of sustainable development (a fundamental issue being that of definition). Earlier "conventional wisdom" among donors on how best to achieve development through economic growth often failed to include what are now considered by many to be critical components of sustainable development: 1) equity, 2) the environment and natural resource base, and 3) financial self-sufficiency.

In other words, it is now generally accepted among donors that economic growth that contributes to sustainable development must be broad-based and, in particular, reduce poverty and raise living standards for the poor. It must use natural resources prudently and result in maintenance of the environment for current and future generations. Growth that impoverishes future generations by degrading the natural resource base is not sustainable (USAID 1994, 41). Finally, in most cases, growth should not ultimately rely on constant infusions of grants or subsidized financing from donors. In other words, activities falling under the rubric of the economic growth sector should increasingly work towards financial viability. How financial self-sufficiency is best achieved is beyond the scope of this paper. However, methods employed by USAID in this area include charging user fees, obtaining resources from indigenous or private sector sources, and using endowments and trusts.

The economic growth sector overlaps considerably with other sectors. For example, USAID strategies for sustainable health or sustainable democracy will influence the sustainability of the economic growth sector: People plagued by illness or lacking education are less productive. Likewise, an unstable political regime can scare off investors.

To illustrate these cross-sectoral issues, we turn briefly to the environment sector. During the 1980s, a fundamental paradigm shift occurred in the way donors think about the relationship between the environment and economic development (Goodland 1991). It is now recognized that sustainable development requires not only a sound economy, but a healthy environment (Pezzy 1992). In the long run, a commitment to free markets, though contributing to elements of sustainable development, is not sufficient without sustainable resource use. Where economic growth is dependent on non-renewable resource inputs, inadequate technical progress and open access to environmental resources may be the key factors leading to unsustainability (Pezzy 1989). Government intervention in the form of resource conservation subsidies or depletion taxes can contribute to sustainability, while government subsidies aimed at resource depletion (in the name of economic development) negatively impact sustainable development (Ibid. 1989).

Furthermore, one theorist at the World Bank has argued that sustainable development must include consideration of the rights of future generations to natural resources, claiming sustainability is primarily an issue of "intergenerational equity," and contesting the conventional view that technology will offset resource depletion and environmental degradation (Norgaard 1992).

Since concerns for the environment and intergenerational equity are just beginning to be adopted as "conventional wisdom" in the economic growth sector, the extent to which these components have been incorporated at the project and program level is not readily discernable, posing a clear challenge for the 1990s.

C. Sustainability as it Relates to Economic Growth Subsectors

In the context of this paper, it is impossible to look at sustainability in relation to all the various types of activity that fall under the category of economic growth. Therefore, we have selected four areas for consideration: policy reform, microenterprise development, privatization, and trade and investment promotion. Our approach is meant to present a broad overview, and is therefore liable to omit additional areas of concern.

Economic Policy Reform

Throughout the 1980s, donors and recipients increasingly recognized the importance of a sound, economic policy environment to sustainable economic growth. The World Bank, along with the International Monetary Fund, has been a leader in forging this consensus among donors. Bank research has found that open economies are more likely to sustain economic growth (World Bank 1991c, 88-108; Edwards 1989). Hence, the Bank and USAID have both increasingly pursued economic policy reform, or structural adjustment as it is often referred to at the Bank, as a critical element for long-term economic growth.

An open economy, in general, is one that operates on market principles and enhances private sector opportunities. Reform usually includes liberalizing prices and markets, eliminating public subsidies and industrial protection, opening the economy to international trade and investment, and eliminating monopolies by state-owned enterprises through privatization. These reforms impact positively on prices, production and investment incentives, competition, and efficiency. They help set the stage for economic growth which, it is argued, is essential to reducing poverty and increasing per capita stan-

dards of living. Poverty alleviation and improved living standards are main goals of sustainable development. We do not mean to convey, however, that this simple equation (i.e., market reform = economic growth = declining poverty) exists in a vacuum. Myriad factors in the economic sector, as well as other USAID-supported sectors, are also critical to consider if this equation is to result in sustainable development. Moreover, this prevailing viewpoint is not universally accepted.

The controversy over market reform, economic growth, and the broader question of long term development in general finds its expression in the literature on the impact of structural adjustment on the poor. It is generally accepted that structural adjustment can impact negatively, in the short-to-medium term, the poor and marginalized in a developing country undergoing this reform. However, others argue that, depending on the structure of the economy, structural adjustment can have a positive impact on the poor even in the short term (e.g., when a rural economy is characterized by small farmers who are not exporters, or when the labor force is predominantly in the informal sector, as is often the case). Controversy exists as to the long-term impact of such reform, but the prevailing view among donors is that the long-term benefits are positive (Ribe 1990; also see section 5).

Donors have responded to criticism of structural adjustment and economic policy reform by creating interventions targeting the poor, including compensatory programs, social safety nets, and permanent shifts in public expenditure in favor of the poor (World Bank 1988).

Economic policy reform has become an increasingly important USAID strategy in many countries. In the 1994 strategy paper it reached an apex: A favorable policy and institutional environment is identified as the foundation of economic growth (USAID 1994, 42). Since most of USAID's efforts in this area are relatively recent, it is still too early to make a definitive judgement on their sustainable impact. However, some lessons have emerged, mostly in the context of Africa, where USAID has, since 1985, made policy reform a centerpiece of its efforts to help African governments pursue sustained economic growth. Lessons include (USAID 1991):

Technical assistance designed to improve the host country's internal policy analysis capacity is critical to long-run sustainability.

Policy reform produces "winners" and "losers." The impact of reform on significant stakeholders should be considered and the costs of adjustment addressed.

Policy-based program assistance may be more management-intensive than project assistance, requiring intensive use of highly skilled professionals and thorough technical, economic, social, political, and institutional analysis during planning and implementation stages in order to support sustained institutional changes.

Donor coordination is critical. In a number of cases, different donors have promoted conflicting policy reforms in the same country.

Microenterprise Development

USAID has been a leader in the donor community in demonstrating the signifi-

cant contributions made by micro and small businesses (whether operating in the formal or informal sector) to economic growth in developing countries. USAID has pursued microenterprise development for over two decades through a variety of interventions. Currently, the overwhelming majority of USAID interventions in this area are in microenterprise lending. In 1994, the Agency embarked on a major "Microenterprise Initiative" aimed at creating an Agency-wide approach to microenterprise development emphasizing, among other things, financial self-sufficiency of microenterprise intermediaries.

Researchers, sponsored by USAID and the World Bank, have found that support of the small business sector holds great potential for economic growth and equity due to the creation of jobs, skills transfer, and diversification of the economy (World Bank 1991b; Liedholm and Mead 1990).

In general, the World Bank has tended to support small- and medium-sized enterprises (SMEs) as opposed to microenterprises (there is no single definition of what constitutes a microenterprise, but within USAID it usually means firms with 10 or fewer employees). However, heightened concern for the informal sector and microenterprise development has grown in recent years at the World Bank. Bank SME lending began as early as 1973, and currently channels lending to this sector through commercial banks. The profitability of bank-lending to SMEs and adequate loan repayment rates have been identified as important to sustainability (World Bank 1991b, executive summary). The Bank has also pushed vigorously for positive and unsubsidized interest rates.

Sustainability lessons from experience in this area are found in a wide range of USAID and World Bank documentation (in particular, the research conducted by the USAID-sponsored GEMINI project) and include:

Enterprise expansion through providing credit at or above the rate prevailing in the "formal" credit market has proven to be the most successful approach to achieving sustainability of benefits (such as reaching large numbers of beneficiaries at low cost and generating jobs). Successful microenterprise financial intermediaries charge interest rates that are positive in real terms and sufficient to ensure profitability. This is typically above the formal market rate, but below the "informal or curb market" money-lender rate.

A microenterprise program that combines growth with the institutional capacity to propel it, and maintains an adequate to very good repayment rate, contributes to its own sustainability. The sustainability of a microenterprise assistance program depends primarily on three factors: 1) high and growing volume of lending activity, 2) appropriate institutional capacity to maintain and expand the program, and 3) adequate repayment rates (90 percent or above is considered very good).

One component necessary to financial lending projects that aim to graduate businesses out of the microenterprise and informal sector is a linkage to established commercial sources of finance.

Using nontraditional lending methods, such as group lending or character lending (i.e., clients join in groups and assume responsibility for selection and credit repayment), contributes to the financial viability of microenterprise lending intermediaries (Dressing 1990).

Privatization

Throughout the 1960s and 1970s, developing countries pursued a strategy of nationalizing enterprises and creating state-owned enterprises (SOEs) to provide goods and services. By the 1980s, this statist approach resulted in ineffective and loss-incurring institutions burdening the national economy. The initial efforts of donors focused on reform of the enterprises, trying to improve efficiency and effectiveness while maintaining state ownership. By the late 1980s, it became clear that performance improvements were largely unsustainable (World Bank 1992, 4-6). Instead, donors and developing country governments increasingly turned to a strategy of privatizing state-owned enterprises.

If development analysts are correct in concluding that state ownership or control seldom permits sustained positive performance for more than a few years, then privatization is in itself a strategy for sustainable economic growth, whereas governments sustain the benefits (goods and services provided by SOEs) by changing ownership and removing loss-making enterprises from public subsidies. Privatization can contribute to sustainable economic growth by increasing the efficiency of the enterprises, weeding out those enterprises that are not sustainable financially, and creating more opportunities for the private sector. Privatization is not a panacea, however. Since privatized firms operate on market principles, the sustained flow of benefits to a particular target group, such as the poor, are not necessarily guaranteed. Moreover, unless adequate legal safeguards exist, such as antitrust legislation, privately controlled companies could form monopolies and engage in anti-competitive behavior.

In relation to sustaining the benefit flows of privatization, recent World Bank findings look encouraging: One study found, in the majority of cases analyzed, privatization significantly improved domestic and international welfare and increased productivity. Due to generous worker compensation programs, workers in general were not negatively affected, and in some cases were judged significantly better off after privatization. Moreover, in most cases consumers benefited or were no worse off (Galal et al. 1994).

Although the World Bank is the major intellectual leader among donors in the area of privatization, USAID has also played an important role, particularly in the area of encouraging governments to adopt privatization strategies, and subsequently providing technical assistance during design and implementation of the privatization process.

The privatization process itself needs to be "sustained" only until all SOEs targeted for privatization are sold. However, sustaining the privatization program until its logical conclusion prompts a separate level of inquiry. A number of strategies appear to be important components of a sustainable privatization strategy:

Host government commitment to privatization is critical.

Privatization should occur in a policy environment that is market friendly and in which ownership change will produce efficiency gains that expand production and employment and enhance welfare over the long run. An adequate regulatory and legal environment, including sufficient enforcement, also contributes to sustaining the benefits of privatization. Safeguards for consumer protection are particularly important when privatizing enterprises in less-competitive markets, for example, in natural monopolies such as utilities.

A privatization program should address the need for social safety net and adjustment assistance for those likely to be affected negatively by the process. Adequate severance pay and retraining for dismissed workers are examples of such assistance.

Transparency and public education are important components to sustain progress in a privatization program. Otherwise, public misconceptions and fears concerning privatization (such as the notion that only the local rich or foreigners will benefit) may impede the program.

The intermediary orchestrating the privatization program must have the characteristics of an efficient and qualified organization, including a clear mandate, sufficient autonomy, minimal bureaucracy, access to top decision makers, and technically competent staff (World Bank 1992, 40).

Finally, USAID's Global Bureau has begun to explore the relationship between "good governance" (usually a concept associated with democracy-building efforts) and the sustainability of privatization and its concurrent benefits. The OECD's Development Assistance Committee has also drawn this linkage, including privatization as part of its subsector strategy for promoting good governance.

Export and Investment Promotion

Improving a country's ability to export and attract investment is considered by donors to be an important element of sustained economic growth. Promoting exports and investment can involve many types of intervention, from general economic reform, to trade and investment policy liberalization, improving ports and roads, providing technical assistance enabling developing country businesses to provide goods and services competitive with world standards, providing financial assistance or insurance, and so on.

USAID recently examined its experience worldwide in providing trade and investment promotion services, focusing particularly on using intermediaries to provide market information, buyer contacts, feasibility studies, and reconnaissance visits. The assessment identified a number of lessons with regard to sustainability including:

Both the policy environment and the economic climate are central to the effectiveness of investment and export activities in developing countries (McKean and Fox 1994: 47). USAID found that programs supporting the provision of export and investment services can be effective in a favorable policy environment, particularly in conjunction with macroeconomic stability and realistic exchange rates.

Subsidized services to exporters, if timed appropriately, can have high pay-offs, speeding up export growth. Some successful USAID-financed projects had economic rates of return ranging from 12 to 26 percent. Donor intervention can create an important "bandwagon effect" that can contribute to stimulating exports and the development of a private sector service provider market (Ibid., Summary). Once a private sector service market is adequately developed, there is no need for continued donor intervention.

The commitment of the private sector to the service strategy and provider substantially increases the effectiveness and sustainability of the activity (Ibid., 43). Donors should support strategies that foster private sector

commitment. One promising strategy is called "cost-sharing," whereby donors establish funds to provide grants to firms to help pay as much as half the costs of export services from suppliers of their choice. Since the firms must also risk their own funds, this approach has a built-in screening mechanism, attracting firms with the will and capacity to export.

The type of intermediary selected to implement promotional services is important. An autonomous investment promotion institution is a more effective service provider than a government-dominated institution (Ibid., 47). Government service providers tend to focus on the wrong services, lack trained staff to provide high-quality products, or become consumed by bureaucratic procedures. Public sector investment promotion agencies are susceptible to emphasizing regulatory functions to the detriment of the promotional function (Ibid., Summary).

Given the centrality of policy to achieving export and investment promotion objectives, USAID has found that when countries lack a sufficiently favorable policy environment, donor strategies should focus on improving the macroeconomic and exchange rate regimes, as well as reform of the trade and investment regime. Until adequate incentives are in place, export and investment promotion intermediaries have little to promote (Ibid., 60).

World Bank research has shown that foreign direct investment can contribute significantly to long term development through increased transfer of technology and managerial skills, export market development, stimulation of local entrepreneurship, competition, and innovation (Brewer 1991). In this area, Bank strategies include encouraging countries to adopt open investment policies through policy advice and adjustment lending to improve administrative procedures associated with bringing foreign investment into a country, and, in some cases, establishment of investment promotion centers. Regarding the latter, an IFC study on investment promotion institutions found that government organizations are often ineffective (Wells and Windt 1990).

The Bank has also provided support for trade policy reform and promotion. The Bank's experience with policy reform in this area was mentioned earlier. In the area of trade and investment promotion assistance, Bank research concurs with USAID findings: promotion in a negative policy environment is generally ineffective (Bannon 1986; McKean and Fox 1994). Research conducted by the World Bank on public sector trade promotion organizations has concluded that such assistance has rarely been effective (Keesing and Singer 1990, 1992).

D. Challenges to Operationalizing Sustainability in the Economic Growth Sector

The definitional problem immediately arises: How can USAID distinguish those activities that fall in the economic growth sector from those in other sectors? How do we differentiate between sustainable economic growth and sustainable development? Shall we focus on financial or institutional viability, or something else altogether? Shouldn't these be coupled with the twin goals of impact and effectiveness? To what extent has our concept of "sustainable" economic growth been balanced with other sustainable development goals, such as equity or preservation of natural resources? Would this best be accomplished at the project or program level? What steps by donors would be required to institute the necessary changes?

Sustainability can be analyzed and applied at various levels, including 1)

sustaining the viability of the "benefit provider" during the life of the project and 2) sustaining the flow of benefits to the ultimate recipients beyond the life of the project. Should USAID focus on one or both? Moreover, which indicators will be used to measure sustainable economic growth? Adopting the appropriate time frame when inquiring about sustainability will be important. The controversy surrounding structural adjustment provides an example. Should we focus on the long-term impact of structural adjustment, or do we concentrate on the short- and medium-term impact that can cause disequilibrium and disrupt the flow of benefits to intended beneficiaries? In addition, not all economic growth activities will have the same "sustainability" time horizon. How shall these be determined? Since politics affect outcomes, what have we learned from political economists that should be factored into our analysis and planning for sustainable economic growth?

Further inquiry by USAID may be warranted concerning the sustainability of over-arching USAID development strategies in the economic growth sector. For example, how sustainable is the goal of expanding exports of developing countries? Not only are there environmental implications, but some economists have questioned the capacity of the world economy to absorb expanding exports (Mabbs-Zeno and Krissoff 1989). Such factors have implications for the sustainability of USAID development strategies as a whole.

Most USAID literature pertaining to the issues surrounding sustainability focuses on the project level. Is this a level of analysis at which useful lessons for sustainable development can be drawn? Can these lessons be taken out of their country or project context and generalized in a meaningful way? For example, one can draw a lesson that sustainable economic growth generally includes "getting the policy environment right" or "building a sound policy climate." But this accepted conventional wisdom may be too simplistic to operationalize without further analysis. One must ask what we mean by "sound" policy. In pursuing reforms, what mix of policies should be pursued, at what pace and sequence, and how far-reaching? Is it sufficient to reform exchange rate policies only, or must trade policies be liberalized as well? Will this not vary by country?

Sustainability may at times conflict with other goals. For example, host government involvement and participation in strategy preparation, program and project design, and implementation of development activities have been identified as significant contributing factors to sustainability. However, gaining host government commitment may at times necessitate implementing project activities through host government institutions. Yet USAID found, at least in the area of export promotion, government intermediaries were often ineffective and hampered by needless bureaucracy (McKean and Fox 1994). Can both goals be pursued simultaneously? Some trade-offs are inevitable. Upon what "sustainability" criteria will these difficult choices be made?

E. Conclusion

The economic growth sector comprises many diverse activities, four of which were examined in this paper. Theoretical understanding of economic growth as it relates to sustainability and sustainable development has expanded to include issues of equity and the environment. The issue of sustainability of project benefits, including the objective of financial and institutional viability, is gaining increased emphasis in USAID and Bank literature. However, it appears within USAID that these concerns have yet to be successfully incorporated into project design, implementation, and evaluation on a broad level

within the economic growth sector. World Bank literature, particularly in the area of poverty reduction, has taken positive steps to integrate sustainability concepts in a more comprehensive manner. It remains unclear at this stage, however, to what extent this growing emphasis has translated into concrete results towards sustainability in field activities.

Our review of USAID-supported projects within the economic growth sector produced few project examples that clearly emphasize sustainability as a major goal and demonstrate an understanding of sustainability at both the theoretical and practical application levels during the project design phase. Few USAID projects are monitored and evaluated to ascertain whether benefit flows are sustainable.

Fortunately, donors seem to be increasingly interested in adopting this longer term perspective in economic growth strategies. Incorporating sustainable development as a key factor in the economic growth sector remains a major challenge for donors in the 1990s and beyond.

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Overview of the Series

"We humans have a kind of tunnel vision. We only see what we can use. We have not been able to see until recently that it's useful to maintain the integrity of the organism." -- Howard Rheingold

Prepared by Diane Russell, Research Manager, Research and Reference Services Project

This series of issue papers was prepared as a complement to the U.S. Agency for International Development (USAID) strategy papers and the strategy implementation guidelines to assist USAID's move toward sustainable development. It provides decisionmakers with information on definitions, concepts and lessons learned in sustainability and sustainable development from inside and outside USAID, and examines how these concepts are applied within different sectors. The reader will find that, in this series, there are different types and levels of analysis applied to different sectors. This variation reflects the materials available and used, the nature of the sectoral issues, and the viewpoints and experiences of the authors.

The series is meant to stimulate dialogue within the Agency that will lead to

sharing resources and experience. Given the complexity of the topic and vastness of the information resources, however, the papers cannot present a definitive treatment of each subject. In addition, they do not express the views of the Agency nor has it surveyed, in a comprehensive way, attitudes and level of knowledge about sustainability within USAID.

The research has involved reviewing USAID and non-USAID literature, analyzing project information from the Development Information System (DIS), working with individuals from the former International Development Management Center (IDMC) and the IRIS (Institutional Reform and the Informal Sector) Project to get a sense of the history and scope of sustainability within USAID, and interviewing informants within and outside the Agency.

The series begins with Jim Esselman's paper on sustainability and health. As there was an extensive history of USAID experience in relation to sustainability in this sector, the paper concentrates mainly on the Agency experience. The final section of the paper brings up some key issues in relation to health projects and sustainable development.

The second paper, by Dana Wichterman, on economic growth and sustainability, presents both USAID and other donor experience in designing and implementing sustainable economic growth projects, highlighting the difficulty in finding consistent definitions and sustainability materials in this diverse sector. This paper also presents recent discussions on economic growth and sustainable development.

Democracy projects, democracy, and sustainability are addressed in the third paper, in which Heather McHugh looks at these issues through various lenses, and as critical elements of sustainable development. As a relatively new concern for USAID, democracy and governance activities are being defined and fleshed out, and recent lessons are presented.

"Green" environmental issues relating to agriculture and natural resource management, discussed in Diane Russell's paper, have the most robust theoretical literature relating to sustainability and sustainable development, but USAID lessons are relatively new. This fourth paper thus applies the most recent lessons and models to the elaboration of the strategies for sustainable development.

The final paper draws from these works and others to show how these lessons, models and debates can be used by USAID decision makers in the strategic and analytic process of sustainable development.

Definitions

Sustainability is:

a measure of how the growth, maintenance, or degradation of a resource or set of resources affects a population's ability to sustain itself. Indicators are used to measure these effects. A resource can be natural or human, and includes knowledge, technical, financial and other social systems.

a property of processes, investments, technologies and systems as they affect resources available to a population over time. Processes such as policy reform, investments made by donors, governments or other groups, technologies such as improved crop varieties, and systems such as a land tenure or judicial

systems have an impact on access to, valuation and sustainable use of resources. The extent of local participation in and ownership of a process, investment decision, technology development and system is seen to be crucial to sustainability.

fluid and ever-changing: there are tradeoffs and substitutions among resources and systems as valuation and access change over time. Nevertheless, many theorists of sustainable development argue that natural resources are, ultimately, finite and that certain processes, investments, technologies or systems can quicken or slow the pace of resource depletion.

In its broadest interpretation, environmental sustainability refers to the measurement of change in the resource base that supports existing populations. The renewal capacities of natural resources are determined by growth and development cycles, which can be altered through technology innovations. Development investments for a given population must calculate the rates of resource degradation and regeneration, and costs and benefits of different technology packages, in relation to the resources needed and available. An example of a key resource to be sustained is soil fertility, which can be sustained by combinations of fallowing land (land intensive), technology infusions (capital intensive), or the adoption of sustainable agroecological systems (labor intensive).

Economic sustainability is the ability of a population to generate revenue to maintain itself in a market economy and produce a surplus to invest in security, research and development, infrastructure, and social safety nets. At the local level, it is the ability to maintain food and income security so as not to deplete the resource base and drive away young people. Balancing investments in government and community level activity, public and private sectors, and gauging growth potential in relation to environmental and equity concerns, is part of the sustainable development process.

Resources are valued and used within the human framework of ideas and social structures. Social sustainability relates to the soundness, richness and flexibility of organizations and institutions that govern access to and transmission of resources. Supporting institutional sustainability does not mean sustaining specific institutions or organizations, however, but helping people to build and strengthen frameworks -- legislative, regulatory and financial -- that allow sound institutions to flourish. Sound institutions enable societies to use and allocate resources in a transparent and efficient manner.

Benefit Sustainability

Within the development community, sustainability refers to the ability of benefit flows to be maintained after project funding ceases. It is important to note that benefit sustainability does not imply that the project itself continue. In fact, benefits are usually best sustained by beneficiaries themselves through NGOs, governments, or community groups, after the initial USAID investment. Donors may need to sustain benefits over a longer time frame, however, to reach particularly disadvantaged, marginalized or poorly organized beneficiary populations. The calculation of benefit sustainability -- what needs to be sustained over what time frame -- is discussed in Paper 5 in this series.

A great deal of attention has focused on benefit sustainability over the years

and much is known about how to accomplish it, but there has been limited success in refocusing and redesigning for sustainability.

Financial Sustainability

Financial sustainability is a component of benefit sustainability that addresses issues of management capability for eventual self-financing for development investments. Financial and benefit sustainability are components of planning for sustainable development, which, as noted, is an analytic process rather than a development outcome.

Sustainable Development

The term "sustainable development" was first used in the World Conservation Strategy in 1980 and widely disseminated by the Brundtland Report (WCED 1987). Within USAID, the concern for sustainability emerged from the experiences of integrated rural development and infrastructure projects that involved significant investment but were not supported by the local population or the government after project funding ceased (DAI 1982). Thus USAID's major emphasis until recently has been on benefit sustainability.

With the publication of Strategies for Sustainable Development (USAID 1994), the Agency entered a new era where benefit sustainability, a goal that still needs to be addressed, was linked to the process of sustainable development. The strategy papers defined sustainable development as "characterized by economic and social growth that does not exhaust the resources of the host country; that respects and safeguards the economic, cultural and natural environment; that creates many incomes and chains of enterprises; that is nurtured by an enabling policy environment; and that builds indigenous institutions that involve and empower the citizenry" (USAID 1994).

Sustainable development is the process in which USAID and host country stakeholders analyze, plan and negotiate USAID's investments in sustaining particular benefits over a given time-frame. It links micro-level benefits with macro-level societal goals and objectives (Diwan 1994). As discussed in Paper 5, the overarching goals include increasing efficiency in the use of resources, alleviating stress, and promoting equitable use of resources, as well as preserving a resource and knowledge base for future generations (intergenerational equity).

This process is grounded in multiobjective analysis, participation, and inclusion. The investment decisions must also be analyzed in light of U.S. and international objectives for sustainable development. Thus, sustainable development is defined at the highest level and includes such considerations as national and international security, global assessment of resource use and depletion, development of and access to technology, information infrastructures, and competition over access to natural resources and markets.